

ADAIR COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018
with
INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor's Report.....	1
Management's Discussion and Analysis (MD&A) (Unaudited)	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Fund.....	15
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	16
Statement of Cash Flows – Proprietary Fund	17
Statement of Net Position – Fiduciary Fund.....	18
Notes to Basic Financial Statements	19

Supplementary Information

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	48
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Funds	49
Schedule of District's Proportionate Share of the Net Pension Liability – County Employees Retirement System.....	50
Schedule of District Contributions – County Employees Retirement System.....	51
Notes to Required Supplementary Information – County Employees Retirement System	52
Schedule of Commonwealth of Kentucky's Proportionate Share of the Net Pension Liability –Teachers' Retirement System	53
Schedule of Commonwealth of Kentucky's Contributions – Teachers' Retirement System.....	54
Notes to Required Supplementary Information –Teachers' Retirement System	55
Schedule of District's Proportionate Share of the Net Other Postemployment Benefits Liability – County Employees Retirement System.....	56
Schedule of District Contributions – County Employees Retirement System	57
Notes to Required Supplementary Information – County Employees Retirement System	58
Schedule of District's Proportionate Share of the Net Other Postemployment Benefits Liability –Teachers' Retirement System.....	59
Schedule of District's Contributions – Teachers' Retirement System.....	60
Notes to Required Supplementary Information –Teachers' Retirement System	61
Statement of Receipts, Disbursements, and Due to Student Groups – Elementary and Middle School Activity Funds	62

Statement of Receipts, Disbursements, and Due to Student Groups – Adair County High School Activity Funds	63
Schedule of Expenditures of Federal Awards	66
Notes to Schedule of Expenditures of Federal Awards.....	69
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	70
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	72
Schedule of Findings and Questioned Costs	75
Schedule of Prior Year Audit Findings	77
Independent Auditor's Transmittal Letter for Management Letter Comments	78
Management Letter Comments	79



**M A T H E R
& C O M P A N Y**

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Adair County School District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Submission Instructions*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Adair County School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension, and postemployment benefits other than pension plans information, on pages 4 through 8 and 48 through 61, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of receipts, disbursements, and due to student groups, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of receipts, disbursements, and due to student groups, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 9, 2018

ADAIR COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

Year ended June 30, 2018

The Adair County School District (District) offers the following narrative of the financial statements for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit report.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$3,378,724 which includes General Fund balance of \$2,706,265, Facility Support (FSPK) of \$74, Capital Outlay of \$816, and Construction of \$56,410.
- The General Fund had \$22,867,834 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes.
- The District is looking at trying to build new concession stands and locker rooms for softball, baseball, and football. This will be one facility in a central location to accommodate all three sports.
- The District is looking at trying to get a new Baseball field located closer to the high school. We are working with the Architect to see what our options are and the cost to the District.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

The government-wide financial statements are designed to provide an overview of the District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities. The increases or decreases in assets and liabilities over time will be helpful in determining the financial status of the District.

The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenue. The government-wide financial

statements of the District include instruction, support services, plant and operations, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements are a grouping of related accounts that are used to maintain control over resources for specific activities and objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure compliance with financial and legal requirements. All of the District's funds are divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are to be set up to help aid in supporting students and teachers in the education process. The proprietary funds are our school food service operations. All other activities of the District are considered as governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 18 of this report.

The notes provide additional information to the understanding of the data provided within our financial statements. The notes for the financial statements can be found on pages 19 through 47 of this report.

Total Assets and Deferred Outflows of Resources	\$ 42,759,750
Total Liabilities and Deferred Inflows of Resources	\$ 42,937,054
Total Net Position	\$ (177,304)

Comments on Budget Comparisons

- The District's 2018 revenues were \$28,709,762.
- The District's 2018 expenditures were \$29,604,249.
- The District's financing from other sources were \$74,499.
- The fund balance at the end of the 2018 fiscal year for the General Fund was \$2,811,281. This is approximately a 12% contingency.

The following table is a summary/breakdown of the District's General Fund revenue and expenditures for the year ended June 30, 2018.

Revenues	
Local revenue	\$ 4,787,366
State and Federal revenue	<u>18,080,468</u>
Total revenues	\$ 22,867,834

Expenditures

Instruction	\$ 15,067,212
Student support services	770,308
Instructional staff support services	634,731
District administration	961,130
School administration	1,116,711
Business support services	607,337
Plant and operations and maintenance	1,915,663
Student transportation	1,896,110
Debt Service	<u>186,117</u>

Total expenditures23,155,319**Excess of expenditures over revenues**\$ (287,485)**Total Governmental Funds**

Total Revenue	\$ 28,709,762
Total Expenditures	29,604,249
Total Other Financing Sources	<u>74,799</u>

**Excess of expenditures over revenue and
other financing sources**\$ (819,988)**Grant (Fund II) Information**

The following is a list of major Grants and the amounts that were received during the 2018 fiscal year.

State Grants

KECSAC	\$ 235,088
Extended School Services	87,226
Family Resource Centers	219,024
Gifted and Talented	39,290
Kera-Preschool	289,345
Professional Development	14,099
Textbooks	51,818
School Safety	42,272
KY ASAP	16,000
KETS	97,694

Federal Grants

Title I	\$ 1,289,508
Migrant	100,217
Title I – Part D	31,640
Title I – Part D Subpart 2	54,004
Idea B Basic	552,580
Idea B Preschool	24,278
Vocational Education	31,282
Rural and Low Income	44,056
Title II – Quality Teacher	174,195
21 st Century	161,000
Title III	2,741
Title IV	30,879

Local Grants

WHAS Grant	\$ 49,000
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The Title I grant was allocated to our elementary schools, our intermediate school, and our middle school. These supplemental funds are used for salaries, supplies, parent involvement activities, travel, and professional development. These funds are used school wide. The primary focus of the Title I program is based on the academic need of each individual school.

The Vocational Funds are allocated between the Business Department, the Vocational Ag. Department, the Technology Department, and the Home Ec. Department at the Adair County High School. These funds were used for equipment, computers, and travel for the teachers.

The IDEA B, IDEA B Preschool, and KERA Preschool funds are generated on the December 1 child count. These funds are used for salaries, supplies, special equipment, professional development, consultant fees, and travel expenses.

The Title II – Quality Teacher Grant was incorporated with the Title I funds to help student achievement at all levels from the elementary school to the high school.

The WHAS Grant funds were used to pay a salary for a Special Education Instructor.

The KECSAC funds are used at the Adair County Youth Development Center. These funds are used for salaries for teachers and supplies for the students housed at that facility.

The 21st Century funds are used at the Adair County Primary Center and the Adair County Elementary after school programs that help to make those students more rounded.

School Food Services Fund

This year our District has offered CEP for all Adair County Students.

Food Service Operating Revenue:

Lunch Sales	\$ 154,450
Federal Grants	1,616,546
State Grants	200,937
Interest	2,247
Donated Commodities	<u>115,942</u>

Total	<u>\$ 2,090,122</u>
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Total Expenses:

Salaries, wages and benefits	\$ 911,725
Supplies	1,065,795
Contract services	18,092
Depreciation	31,704
Other	<u>5,344</u>

Total	<u>\$ 2,032,630</u>
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Net change in position	<u>\$ 57,492</u>
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Net position as of June 30, 2018	<u>\$ 580,435</u>
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If you have any questions, please contact the Superintendent or Finance Director at (270) 384-2476, or 1204 Greensburg Street, Columbia, Kentucky 42728.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash	\$ 2,946,007	\$ 432,717	\$ 3,378,724
Receivables:			
Taxes	198,906	-	198,906
Other	6,498	-	6,498
Intergovernmental – State	27	-	27
Intergovernmental – Federal	118,177	-	118,177
Net capital assets	<u>33,536,629</u>	<u>147,718</u>	<u>33,684,347</u>
Total assets	36,806,244	580,435	37,386,679
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refundings	382,343	-	382,343
Deferred outflows of resources related to pension expense	4,064,649	-	4,064,649
Deferred outflows of resources related to other postemployment benefits	<u>926,079</u>	<u>-</u>	<u>926,079</u>
Total deferred outflows of resources	5,373,071	-	5,373,071
LIABILITIES			
Accounts payable	51,616	-	51,616
Unearned revenue	300,646	-	300,646
Current maturities of bond obligations	1,844,515	-	1,844,515
Current portion of accumulated sick leave	48,772	-	48,772
Interest payable	244,600	-	244,600
Noncurrent net pension liability	7,541,460	-	7,541,460
Noncurrent net other postemployment benefits liability	8,767,145	-	8,767,145
Noncurrent maturities of bond obligations	22,065,212	-	22,065,212
Noncurrent portion of accumulated sick leave	855,251	-	855,251
Noncurrent portion of accrued expense	<u>50,996</u>	<u>-</u>	<u>50,996</u>
Total liabilities	41,770,213	-	41,770,213
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension expense	951,228	-	951,228
Deferred inflows of resources related to other postemployment benefits	<u>215,613</u>	<u>-</u>	<u>215,613</u>
Total deferred inflows of resources	1,166,841	-	1,166,841
NET POSITION			
Invested in capital assets, net of related debt	9,382,302	147,718	9,530,020
Restricted for:			
Capital expenditures/debt service	57,300	-	57,300
Unrestricted	<u>(10,197,341)</u>	<u>432,717</u>	<u>(9,764,624)</u>
Total net position	\$ (757,739)	\$ 580,435	\$ (177,304)

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental activities							
Instruction	\$ 19,014,669	\$ -	\$ 7,929,601	\$ -	\$ (11,085,068)	\$ -	\$ (11,085,068)
Student support services	789,334	-	264,133	-	(525,201)	-	(525,201)
Instructional staff support services	682,664	-	268,433	-	(414,231)	-	(414,231)
District administration	971,630	-	116,139	-	(855,491)	-	(855,491)
School administration	1,130,861	-	399,881	-	(730,980)	-	(730,980)
Business support services	607,882	-	154,550	-	(453,332)	-	(453,332)
Plant operations and maintenance	2,503,687	-	297,560	-	(2,206,127)	-	(2,206,127)
Student transportation	1,969,826	-	507,401	-	(1,462,425)	-	(1,462,425)
Community services	231,820	-	231,820	-	-	-	-
Interest	598,724	-	-	598,724	-	-	-
Total governmental activities	28,501,097	-	10,169,518	598,724	(17,732,855)	-	(17,732,855)
Business-type activities							
Food service	2,032,630	154,450	1,933,425	-	-	55,245	55,245
Total business-type activities	2,032,630	154,450	1,933,425	-	-	55,245	55,245
Total primary government	<u>\$ 30,533,727</u>	<u>\$ 154,450</u>	<u>\$ 12,102,943</u>	<u>\$ 598,724</u>	<u>(17,732,855)</u>	<u>55,245</u>	<u>(17,677,610)</u>
General revenues							
Taxes:							
Property					3,572,658	-	3,572,658
Motor vehicle					549,596	-	549,596
Utilities					982,908	-	982,908
Earnings on investments					31,867	2,247	34,114
State grants					12,701,589	-	12,701,589
Federal grants					55,974	-	55,974
Other local amounts					46,928	-	46,928
Miscellaneous					74,793	-	74,793
Total general revenues					18,016,313	2,247	18,018,560
Change in net position					283,458	57,492	340,950
Net position as of July 1, 2017, as previously reported					6,809,653	522,943	7,332,596
Change in accounting principle					(7,850,850)	-	(7,850,850)
Net position as of July 1, 2017, as restated					(1,041,197)	522,943	(518,254)
Net position as of June 30, 2018					<u>(757,739)</u>	<u>\$ 580,435</u>	<u>\$ (177,304)</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
ASSETS							
Cash	\$ 2,706,265	\$ 182,442	\$ 816	\$ 74	\$ 56,410	\$ -	\$ 2,946,007
Receivables:							
Taxes	198,906	-	-	-	-	-	198,906
Other	6,498	-	-	-	-	-	6,498
Intergovernmental							
– State	-	27	-	-	-	-	27
Intergovernmental							
– Federal	-	118,177	-	-	-	-	118,177
Total assets	\$ 2,911,669	\$ 300,646	\$ 816	\$ 74	\$ 56,410	\$ -	\$ 3,269,615
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 51,616	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,616
Unearned revenue	-	300,646	-	-	-	-	300,646
Current portion of accumulated sick leave	48,772	-	-	-	-	-	48,772
Total liabilities	100,388	300,646	-	-	-	-	401,034
Fund balances							
Restricted for:							
Capital expenditures	-	-	-	-	56,410	-	56,410
Capital expenditures/ debt service	-	-	816	74	-	-	890
Unassigned	2,811,281	-	-	-	-	-	2,811,281
Total fund balances	2,811,281	-	816	74	56,410	-	2,868,581
Total liabilities and fund balances	\$ 2,911,669	\$ 300,646	\$ 816	\$ 74	\$ 56,410	\$ -	\$ 3,269,615

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2018

Total fund balances – governmental funds	\$ 2,868,581
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$50,930,754, and the accumulated depreciation is \$17,394,125.	33,536,629
Deferred loss on bond refundings is not a current financial resource and therefore is not reported as a deferred outflows of resources in governmental funds.	382,343
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(23,909,727)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(855,251)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(244,600)
Noncurrent net pension liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. The deferred outflows of resources related to pension expense total \$4,064,649, the deferred inflows of resources related to pension expense total \$951,228, and the net pension liability on the statement of net position is \$7,541,460.	(4,428,039)
Noncurrent net other postemployment benefits liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. The deferred outflows of resources related to OPEB expense total \$926,079, the deferred inflows of resources related to OPEB expense total \$215,613, and the net OPEB liability on the statement of net position is \$8,767,145.	(8,056,679)
Noncurrent portion of accrued expense is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(50,996)</u>
Total net position – governmental activities	<u>\$ (757,739)</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year ended June 30, 2018

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 3,181,740	\$ -	\$ -	\$ 390,918	\$ -	\$ -	\$ 3,572,658
Motor vehicle	549,596	-	-	-	-	-	549,596
Utilities	982,908	-	-	-	-	-	982,908
Earnings on investments	29,438	902	268	268	992	-	31,868
Other local	43,684	59,123	-	-	-	-	102,807
Intergovernmental – State	18,024,494	990,867	231,868	516,845	-	968,508	20,732,582
Intergovernmental – Federal	55,974	2,681,369	-	-	-	-	2,737,343
Total revenues	22,867,834	3,732,261	232,136	908,031	992	968,508	28,709,762
Expenditures							
Current:							
Instruction	15,067,212	3,466,648	-	-	-	-	18,533,860
Student support services	770,308	19,026	-	-	-	-	789,334
Instructional staff support services	634,731	47,933	-	-	-	-	682,664
District administration	961,130	-	-	-	-	-	961,130
School administration	1,116,711	-	-	-	-	-	1,116,711
Business support services	607,337	-	-	-	-	-	607,337
Plant operations and maintenance	1,915,663	-	-	-	-	-	1,915,663
Student transportation	1,896,110	15,309	-	-	-	-	1,911,419
Community services	-	231,820	-	-	-	-	231,820
Facilities acquisition and construction	-	-	-	-	376,348	-	376,348
Debt service	186,117	-	-	-	-	2,291,846	2,477,963
Total expenditures	23,155,319	3,780,736	-	-	376,348	2,291,846	29,604,249
(Deficit) excess of revenues over (under) expenditures	(287,485)	(48,475)	232,136	908,031	(375,356)	(1,323,338)	(894,487)
Other financing sources (uses)							
Miscellaneous	74,499	-	-	-	-	-	74,499
Operating transfers in	43,593	223,250	-	-	-	1,323,338	1,590,181
Operating transfers out	(275,274)	(174,775)	(232,129)	(908,003)	-	-	(1,590,181)
Total other financing sources (uses)	(157,182)	48,475	(232,129)	(908,003)	-	1,323,338	74,499
Net change in fund balance	(444,667)	-	7	28	(375,356)	-	(819,988)
Fund balance as of July 1, 2017	3,255,948	-	809	46	431,766	-	3,688,569
Fund balance as of June 30, 2018	\$ 2,811,281	\$ -	\$ 816	\$ 74	\$ 56,410	\$ -	\$ 2,868,581

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2018

Net change in total fund balances – governmental funds	\$ (819,988)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which depreciation expense (\$1,017,868) exceeds capital outlays (\$495,603) and disposal of capital assets (\$294).	(521,971)
Deferred loss on bond refundings is not reported as an expenditure in the governmental fund financial statements, but is capitalized and amortized over the life of the related bonds on the statement of activities.	(85,127)
Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively.	1,964,366
Pension expense is recognized in the governmental fund financial statements as the total expenditures paid in the current year for the employer's portion of contributions. However, on the statement of activities, pension expense is calculated using the accrual basis of accounting which accounts for the increases and decreases in the net pension liability.	23,212
Postemployment benefits expense is recognized in the governmental fund financial statements as the total expenditures paid in the current year for the employer's portion of contributions. However, on the statement of activities, OPEB expense is calculated using the accrual basis of accounting which accounts for the increases and decreases in the net OPEB liability.	(205,829)
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	(88,202)
Accrued expense related to noncurrent portion of accrued liability is recognized in the statement of activities, but not in the governmental fund financial statements because it will not be paid with existing financial resources.	<u>16,997</u>
Change in net position – governmental activities	<u>\$ 283,458</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUND

June 30, 2018

School
Food
Service
Fund

ASSETS

Current assets

Cash \$ 432,717

Total current assets 432,717

Noncurrent assets

Capital assets 685,941

Less accumulated depreciation 538,223

Total noncurrent assets 147,718

Total assets 580,435

NET POSITION

Invested in capital assets 147,718

Unrestricted 432,717

Total net position \$ 580,435

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND**

Year ended June 30, 2018

School
Food
Service
Fund

Operating revenues

Lunchroom sales \$ 154,450

Operating expenses

Salaries, wages, and benefits 911,725
Contract services 18,092
Materials and supplies 1,065,765
Depreciation 31,704
Other 5,344

Total operating expenses 2,032,630

Operating loss (1,878,180)

Nonoperating revenues

Federal grants 1,616,546
State grants 200,937
Donated commodities 115,942
Interest income 2,247

Total nonoperating revenues 1,935,672

Change in net position 57,492

Net position as of July 1, 2017 522,943

Net position as of June 30, 2018 \$ 580,435

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

Year ended June 30, 2018

School
Food
Service
Fund

Cash flows from operating activities

Cash received from:

Lunchroom sales

\$ 154,450

Cash paid to/for:

Employees and contract services

(929,817)

Materials and supplies

(955,167)

Net cash used in operating activities

(1,730,534)

Cash flows from noncapital financing activities

Government grants

1,817,483

Net cash provided by noncapital financing activities

1,817,483

Cash flows from investing activities

Capital asset purchases

(13,560)

Receipt of interest income

2,247

Net cash used in investing activities

(11,313)

Net increase in cash

75,636

Cash as of July 1, 2017

357,081

Cash as of June 30, 2018

\$ 432,717

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss

\$ (1,878,180)

Adjustments to reconcile operating loss to net cash
used in operating activities:

Depreciation

31,704

Donated commodities

115,942

Net cash used in operating activities

\$ (1,730,534)

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUND

June 30, 2018

	<u>Student Activity Funds</u>
ASSETS	
Cash	\$ 235,981
Accounts receivable	<u>2,931</u>
Total assets	238,912
LIABILITIES	
Accounts payable	814
Due to student groups	<u>238,098</u>
Total liabilities	<u>238,912</u>
NET POSITION	<u><u>\$ -</u></u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2018

1. Basis of presentation and summary of significant accounting policies

Reporting entity – The Adair County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Adair County School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of those funding source entities. However, the District is not included in any other governmental reporting entity, and its Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the District's operation. The basic financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The District's basic financial statements include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the basic financial statements of the following organization are included in the accompanying basic financial statements:

Adair County School District Finance Corporation – The Adair County, Kentucky, Board of Education established the Adair County School District Finance Corporation (Corporation) (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board members of the Adair County Board of Education also comprise the Corporation's Board of Directors.

Government-wide financial statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the District's financial activities, except for fiduciary funds. The statements distinguish between those District activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District's activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities, and each segment of the District's business-type activities. Direct expenses are those that are specifically associated with a service, program, or function. The District does not charge indirect expenses to programs or functions. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the District's general revenues.

Fund financial statements – Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each fund is presented in a separate column. Fiduciary funds are reported by fund type.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's primary operations. The fund's primary operating revenues are food service charges. Operating expenses include salaries and benefits, supplies and materials, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America (GAAP) require the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds. Additionally, the District has determined certain other funds should be reported as major funds.

The District has the following funds:

a. Governmental fund types

The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.

Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as capital outlay funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations). This is a major fund of the District.
2. The Facility Support Program (FSPK) Fund accounts for and reports funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The School Construction Fund accounts for and reports proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

4. The Debt Service Fund accounts for and reports expenditures for debt payments. This is a major fund of the District.

b. Proprietary fund type

The School Food Service Fund accounts for and reports school food service activities, primarily including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.

c. Fiduciary fund type

The Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds* (Redbook).

Budgetary process – The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with GAAP.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Inventories – Supplies and materials are charged to expense when purchased (purchases method).

Deferred loss on bond refundings – Deferred loss on bond refundings represent losses equal to the principal amount borrowed to refund the principal amount outstanding on previous bond issues. These amounts are recognized as deferred outflows of resources on the accompanying statement of net position. The amounts are amortized over the life of the new bond or the life of the refunded bond (whichever is shorter), and included in interest expense on the accompanying statement of activities.

Deferred outflows and inflows of resources related to pension expense and other postemployment benefits – Deferred outflows and deferred inflows of resources related to pension expense and other postemployment benefits (OPEB) represent District contributions to multi-employer pension plans after the measurement date (June 30, 2017) used to account for the pension and OPEB liabilities, the impact on pension and OPEB liabilities related to differences between expected and actual experience, changes of assumptions, net differences between projected and actual earnings on pension plan and OPEB investments, and changes in proportion and differences between District contributions and proportionate share of contributions on the accompanying statement of net position.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. There were no interfund balances as of June 30, 2018.

Capital assets – General capital assets are those assets not specifically related to activities reported in the proprietary funds. Those assets generally result from expenditures in the governmental funds and are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Effective July 1, 2013, the District maintains a capitalization threshold of \$1,000. Prior to July 1, 2013, the District maintained a capitalization threshold of \$1,000 with the exception of computers and related equipment for which there was no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	12 years

Accrued liabilities and long-term obligations – All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements if they will be liquidated with current resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Unearned revenue – Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied.

Accumulated sick leave – Sick leave benefits are calculated using the vesting method, and accrued based on the District's estimates using historical trend information in the government-wide financial statements. The current portion of the liability is estimated based on the anticipated payouts in the succeeding fiscal year.

Pensions and other postemployment benefits – For purposes of measuring the net pension and OPEB liability, deferred outflows and deferred inflows of resources related to pension and OPEB expense, pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and the Teachers' Retirement System (TRS), and additions to/deductions from CERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by CERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund balances – The District classifies its governmental fund balances as follows:

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format or are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2018.

Restricted – This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund and the FSPK Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects. The Debt Service Fund is restricted for debt service.

Committed – This category includes funds that have been designated for future use by the Board. Only the Board may commit funds and modify or rescind the commitment. The District does not have any committed funds as of June 30, 2018.

Assigned – This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management. The District does not have any assigned funds as of June 30, 2018.

Unassigned – This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classification.

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

When the District incurs an expenditure for which restricted and unrestricted (assigned and unassigned, respectively) funds are available within a given fund, the District generally spends restricted funds first and unrestricted funds last.

Net position – Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. Amounts invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the asset's use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

Encumbrance accounting – Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Estimates – The preparation of basic financial statements in accordance with GAAP requires the District's management to make estimates and assumptions that affect reported amounts of assets, deferred outflows and deferred inflows of resources, liabilities, net position/fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Fair value measurements – The District applies fair value measurements as prescribed by the Government Accounting Standards Board (GASB) Statement No. 72 which requires entities to determine fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. This statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other GASB Standards that require or permit fair value measurements and disclosures. The guidance requires impacted assets and liabilities to be measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access. Level 2 inputs include a) quoted prices for similar assets or liabilities in inactive markets, b) quoted prices for identical or similar assets or liabilities in inactive markets, c) inputs other than quoted prices that are observable for the asset or liability, and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs. Management uses specific valuation techniques based on the available inputs to measure the fair value of the District's impacted assets and liabilities. When available, management measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

These methods may produce a fair value calculation that may not be indicative of net realizable value, or reflective of future fair values. Furthermore, while management believes the valuation methods utilized are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain assets and liabilities could result in different fair value measurements as of June 30, 2018.

Subsequent events – The District's management has evaluated subsequent events through November 9, 2018, the date which the financial statements were available for issue. No subsequent events were of such nature to require disclosure.

New accounting pronouncements – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. This statement establishes new reporting and disclosure requirements for entities that provide postemployment benefits other than retirement and establishes criteria whereas these amounts may be accrued or disclosed in entity financial statements. The District adopted this statement effective July 1, 2017 (see Note 8) resulting in an increase in deferred outflows of resources related to other postemployment benefits of \$296,782, a \$8,147,632 increase in OPEB liability on the statement of net position, and a \$7,850,850 reduction in the District's net position as of July 1, 2017 on the statements of net position.

In June 2017, GASB issued Statement No. 87, *Leases* which increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for leases that are currently accounted for as operating leases. This statement is effective for reporting periods beginning after December 15, 2019. The District has not determined the impact this statement will have on future financial statements.

In April of 2018, GASB issued Statement Number 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement increases disclosures regarding the terms of borrowing arrangements. This statement is effective for periods beginning after June 15, 2018. The District has not determined the impact this statement will have on future financial statements.

2. Deposits with financial institutions

As of June 30, 2018, the carrying amount of the District's deposits with financial institutions was \$3,614,705, and its bank balances totaled \$4,628,555. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

Cash is commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and financial assistance programs, each cash amount within the following funds is considered to be restricted:

SEEK Capital Outlay Fund
Facility Support Program (FSPK) Fund
School Construction Fund
Student Activity Funds

District funds are considered to be public funds and therefore its investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

3. Taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2018 were \$.540 per \$100 valuation for real property, \$.540 per \$100 valuation for business personal property, and \$.563 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gas.

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2018 is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2018</u>
Land	\$ 946,256	\$ -	\$ -	\$ -	\$ 946,256
Buildings and improvements	44,315,326	397,248	-	-	44,712,574
Technology equipment	609,618	-	114,299	-	495,319
Vehicles	3,690,019	98,355	-	-	3,788,374
General equipment	988,231	-	-	-	988,231
Total cost	50,549,450	495,603	114,299	-	50,930,754
Less accumulated depreciation:					
Buildings and improvements	12,317,022	823,899	-	-	13,140,921
Technology equipment	426,561	46,361	114,593	-	358,329
Vehicles	2,876,822	132,405	-	-	3,009,227
General equipment	870,445	15,203	-	-	885,648
Total accumulated depreciation	16,490,850	1,017,868	114,593	-	17,394,125
Governmental activities net capital assets	<u>\$ 34,058,600</u>	<u>\$ (522,265)</u>	<u>\$ (294)</u>	<u>\$ -</u>	<u>\$ 33,536,629</u>

<u>Business-Type Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2018</u>
Food service equipment	\$ 695,109	\$ 13,560	\$ 22,728	\$ -	\$ 685,941
Less accumulated depreciation	<u>529,247</u>	<u>31,704</u>	<u>22,728</u>	<u>-</u>	<u>538,223</u>
Business-type activities net capital assets	<u>\$ 165,862</u>	<u>\$ (18,144)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,718</u>

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 247,887
District administration	10,500
School administration	14,150
Business support services	545
Plant operations and maintenance	588,024
Student transportation	<u>156,762</u>
Total depreciation expense	<u>\$ 1,017,868</u>

5. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Adair County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rate are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2006 Energy	\$ 500,000	4.00 – 4.50%
2008 KISTA	239,118	3.00 – 3.75%
2009	2,530,000	2.00 – 3.25%
2010 KISTA	197,949	2.00 – 3.60%
2011 KISTA	172,266	1.00 – 4.00%
2013	12,885,000	2.00 – 3.125%
2013 KISTA	1,076,302	2.00 – 2.25%
2013	9,010,000	1.00 – 2.25%
2014 KISTA	184,953	2.00%
2014 KISTA	185,889	2.00 – 3.00%
2015 KISTA	250,933	1.00 – 2.625%

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2015	\$ 1,065,000	1.00 – 3.60%
2016	1,525,000	3.05%
2016 KISTA	186,608	2.00 – 2.625%
2017 KISTA	193,791	2.55%
2017	390,000	3.00 – 4.00%

The District, through the General Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Adair County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

For the 2009 and 2013 (two issues) bond issues, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2018 for debt service (principal and interest) are as follows:

<u>Fiscal Year Ending</u>	<u>Adair County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2019	\$ 1,052,197	\$ 430,319	\$ 792,318	\$ 176,191	\$ 2,451,025
2020	1,081,893	406,530	809,371	159,138	2,456,932
2021	1,092,815	379,744	790,143	140,758	2,403,460
2022	1,102,687	353,302	704,870	124,152	2,285,011
2023	1,134,477	327,323	720,177	108,846	2,290,823
2024	1,152,972	300,427	735,820	93,204	2,282,423
2025	930,371	274,976	752,250	76,771	2,034,368
2026	926,999	250,809	628,062	60,659	1,866,529
2027	935,015	224,905	237,290	49,752	1,446,962
2028	895,723	197,603	244,277	42,766	1,380,369
2029	923,283	170,142	251,717	35,326	1,380,468
2030	955,616	141,756	259,384	27,659	1,384,415

Fiscal Year Ending	Adair County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2031	\$ 982,716	\$ 112,338	\$ 267,284	\$ 19,759	\$ 1,382,097
2032	1,014,436	81,580	275,564	11,479	1,383,059
2033	1,044,353	49,273	230,647	3,604	1,327,877
2034	315,000	28,340	-	-	343,340
2035	320,000	17,948	-	-	337,948
2036	295,000	8,060	-	-	303,060
2037	55,000	2,200	-	-	57,200
	<u>\$ 16,210,553</u>	<u>\$ 3,757,575</u>	<u>\$ 7,699,174</u>	<u>\$ 1,130,064</u>	<u>\$ 28,797,366</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2018 is as follows:

Issue	Balance July 1, 2017	Additions	Payments	Balance June 30, 2018
School Building				
Revenue Bonds:				
2009	\$ 1,105,000	\$ -	\$ 275,000	\$ 830,000
2013	12,035,000	-	220,000	11,815,000
2013	8,260,000	-	890,000	7,370,000
2015	940,000	-	65,000	875,000
2016	1,485,000	-	40,000	1,445,000
2017	390,000	-	10,000	380,000
Energy Bonds:				
2006	353,000	-	24,000	329,000
KISTA Bonds:				
2008	23,215	-	23,215	-
2010	58,345	-	21,027	37,318
2011	67,633	-	17,746	49,887
2013	233,500	-	146,900	86,600
2014	108,585	-	18,244	90,341
2014	127,632	-	17,953	109,679
2015	196,434	-	23,944	172,490
2016	166,374	-	20,462	145,912
2017	193,791	-	20,291	173,500
Totals	<u>\$ 25,743,509</u>	<u>\$ -</u>	<u>\$ 1,833,782</u>	<u>\$ 23,909,727</u>

6. Accumulated unpaid sick leave benefits

Upon retirement from the District, eligible employees will receive an amount equal to 30% of the value of accumulated sick leave.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the accumulated sick leave payable account in the General Fund. The noncurrent portion of the liability is not reported.

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2018 is as follows:

Balance as of July 1, 2017	\$ 833,542
Additions	319,717
Less payments/forfeitures	<u>249,236</u>
Balance as of June 30, 2018	904,023
Less current portion	<u>48,772</u>
Noncurrent portion	<u>\$ 855,251</u>

7. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2018 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

8. Retirement and other postemployment benefit plans

District employees are provided with two pension plans based on each position's college degree requirement. CERS covers employees whose position does not require a college degree or teaching certification. TRS covers positions requiring teaching certification or otherwise requiring a college degree.

General information about CERS

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky (the Commonwealth). Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <https://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, and death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least five years of service and 55 years old, or at least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least five years of service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least ten years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least five years of service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

Contributions – Required contributions as determined by the Kentucky Retirement System Board of Trustees by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District matches at a rate of 19.18% (18.68% for 2017, used in measurement period) of the employee's total covered compensation. The District's matching contributions total \$652,026 (\$591,156 for 2017, used in measurement period) for the year ended June 30, 2018.

General information about TRS

Plan description – The District's teaching certified employees and certain other employees whose positions require at least a college degree are provided pensions through TRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky, and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://www.trs.ky.gov/financial-reports-information>.

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either attain age fifty-five and complete five years of Kentucky service, or complete 27 years of Kentucky service.

Employees who retire before age 60 with less than 27 years of service receive reduced retirement benefits. Employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. Employees hired (including second retirement accounts) after July 1, 2002 and before July 1, 2008, will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. Employees hired after July 1, 2002 and before July 1, 2008 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Employees hired after July 1, 2008 will receive monthly benefits equal to 1.7% of their final average salary for each year of service if, upon retirement, their total service is less than ten years; 2% if their years of service are ten to twenty years; 2.5% if their years of service are twenty to twenty-five years; and 2.5% if their years of service exceed 26 years.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the Kentucky General Assembly.

Contributions – Contribution rates are established by KRS. Employees are required to contribute 12.855% (12.855% for 2017, used in measurement period) of their salaries to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for employees hired before July 1, 2008, and 14.105% for those hired after July 1, 2008. For employees whose salaries are federally funded, the District contributes 16.105% (16.105% for 2017, used in measurement period) of salaries. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the employee's request.

Other retirement plans

The District also offers employees the option to participate in voluntary tax-deferred compensation retirement plans as provided by the Adair County Board of Education 403(b) Plan, and by the Kentucky Public Employees' Deferred Compensation Program which administers 401(k) plans sponsored by the Commonwealth of Kentucky. All regular full-time

and part-time employees are eligible to participate and may contribute up to the maximum amount allowable under Sections 403(b), 401(k), and 457 of the Internal Revenue Code. Members contributed approximately \$89,883 during the year ended June 30, 2018. The District does not contribute to these plans.

Medical insurance plan

Plan description – In addition to the pension benefits described above, KRS 161.675 requires TRS to provide postemployment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple-employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance, and the Kentucky General Assembly.

To be eligible for medical benefits, the employee must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, 7.5% of the gross annual payroll of all certified employees is contributed. 3.75% of the amount is paid by employee contributions, 3% from the employer, with the remainder coming from the Commonwealth. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the plan's medical expenses.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

As of June 30, 2018, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth provides the pension support directly to TRS on the District's behalf. The approximate amount recognized by the District and the Commonwealth as its proportionate share of the net pension liability were as follows:

District's proportionate share of the CERS net pension liability	\$ 7,542,000
Commonwealth's proportionate share of the TRS net liability associated with the District	87,717,000

The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportionate share of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of CERS as determined by the actuary. As of June 30, 2017, the District's proportion was 0.16%.

For the year ended June 30, 2018, the District recognized pension expense totaling approximately \$629,000 related to CERS.

The District reported deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 59,291	\$ 191,435
Changes of assumptions	1,997,540	-
Net difference between projected and actual earnings on pension plan investments	1,113,834	684,795
Changes in proportion and differences between District contributions and proportionate share of contributions	241,958	74,998
District contributions subsequent to the measurement date	<u>652,026</u>	<u>-</u>
Total	<u>\$ 4,064,649</u>	<u>\$ 951,228</u>

Deferred outflows and deferred inflows related to pension expense will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2019	\$ 1,437,149	\$ 244,486
2020	785,123	244,486
2021	785,123	154,086
2022	641,866	154,086
2023	415,388	154,084

Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>TRS</u>
Inflation	3.25%	3.00%
Projected salary increases	4.00%	3.5 – 7.3%
Investment rate of return, net of investment expense and inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For TRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males one year for females.

In 2017 the Investment Committee of the CERS approved new target asset allocations in an attempt to reduce the public equity exposure in favor of fixed income. The target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. equity	25.6%
Broad market international equities	25.2%
Global fixed income	6.8%
Credit fixed income	7.2%
Private equity	10.0%
Real return	8.0%
Absolute return	10.0%
Real estate	5.0%
Cash equivalents	<u>2.2%</u>
Total	<u>100.0%</u>

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	42.0%	4.4%
International equity	20.0%	5.3%
Fixed-income	16.0%	1.5%
Additional categories	9.0%	3.6%
Real estate	5.0%	4.4%
Private equity	6.0%	6.7%
Cash	<u>2.0%</u>	0.8%
Total	<u>100.0%</u>	

Discount rate – For CERS, the discount rate used to measure the total pension liability was 6.25%. This single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the participating employers contribute the actuarially determined contribution rate in all future years.

For TRS, the discount rate used to measure the total pension liability was 4.49%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates, and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2038 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Investment Rate (SEIR). There was a change in the Municipal Bond Index Rate from the prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.49% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.56%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate – The following table presents the District's net pension liability calculated, using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's approximate proportionate share of net pension liability	9,511,000	7,542,000	5,894,000
TRS	3.49%	4.49%	5.49%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and TRS.

OPEB Liabilities, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEBs

As of June 30, 2018, the District reported a liability of \$2,590,145 and \$6,177,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District for CERS and TRS, respectively. The collective net OPEB liabilities were measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was .13% for CERS which remained the same as the prior year, and the District's proportion was .31% for TRS, which remained the same as the prior year.

The amount recognized by the District as its proportionate share of the TRS OPEB liability, the related Commonwealth support, and the total portion of the net TRS OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 6,177,000
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>5,046,000</u>
Total	<u>\$ 11,223,000</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$813,705 and revenue of \$245,923 for support provided by the Commonwealth for TRS. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

CERS

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 7,194
Changes of assumptions	563,599	-
Net difference between projected and actual earnings on pension plan investments	-	122,409
Changes in proportion and differences between District contributions and proportionate share of contributions	<u>-</u>	<u>6,010</u>
Total CERS	563,599	135,613

TRS

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 80,000
District contributions subsequent to the measurement date	<u>362,480</u>	<u>-</u>
Total TRS	<u>362,480</u>	<u>80,000</u>
Combined CERS and TRS	<u>\$ 926,079</u>	<u>\$ 215,613</u>

Deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

CERS

Year ended June 30:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 112,719	\$ 27,123
2020	112,719	27,123
2021	112,719	27,123
2022	112,719	27,123
2023	112,723	27,121

TRS

Year ended June 30:

2019	\$ 362,480	\$ 16,000
2020	-	16,000
2021	-	16,000
2022	-	16,000
2023	-	16,000

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

CERS

Investment rate of return	6.25%
Projected salary increases	3.05%
Inflation rate	2.30%
Real wage growth	2.00%
Wage inflation	2.30%
Healthcare cost trend rates	
Under 65	7.25% trend starting at January 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Ages 65 and Older	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years
Municipal bond index rate	3.56%
Discount rate	5.84%
Single equivalent interest rate	5.84%, net of OPEB plan investment expense, including inflation

TRS

Investment rate of return	7.50% (Life insurance) – 8.00% (Health Insurance)
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real wage growth	0.50%
Wage inflation	3.5%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029

Municipal bond index rate	3.56%
Discount rate	8.00%
Single equivalent interest rate	8.00%, net of OPEB plan investment expense, including inflation

For CERS the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

For TRS mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

For TRS the long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
High Yield	10.0%	4.3%
Other Additional Categories*	10.0%	3.3%
Cash (LIBOR)	<u>1.0%</u>	0.5%
Total	<u>100.0%</u>	

** Modeled as 50% High Yield and 50% Bank Loans.*

The CERS did not provide investment assumptions for OPEB that differed from the assumptions used for the pension liability.

Discount rate – For CERS the projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS's Comprehensive Annual Financial Report.

For TRS the discount rate used to measure the total OPEB liability for TRS was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability, calculated using the discount rate, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

CERS

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 3,295,816	\$ 2,590,145	\$ 2,002,916

TRS

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 7,193,000	\$ 6,177,000	\$ 5,331,000

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

CERS

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 1,986,774	\$ 2,590,145	\$ 3,374,491

TRS

Net OPEB liability	\$ 5,170,000	\$ 6,177,000	\$ 7,412,000
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OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS or TRS financial report.

9. On-behalf payments for fringe benefits and other District expenditures

The District receives on-behalf payments for fringe benefits and other District expenditures from the Commonwealth. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances:

Retirement contributions to TRS	\$ 3,361,915
Health and life insurance	3,006,856
Technology	69,389
Debt service	<u>968,508</u>
Total	<u>\$ 7,406,668</u>

10. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, workers compensation, unemployment, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

11. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the General Fund and the School Construction Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

12. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss contingency.

13. Transfer of funds

The following transfers were made during the year ended June 30, 2018:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching	\$ 48,475
Operating	General	Debt Service	Debt payments	226,799
Operating	Special Revenue	Special Revenue	Reallocation	174,775
Operating	Capital Outlay	General	Administrative	43,593
Operating	Capital Outlay	Debt Service	Debt payments	188,536
Operating	FSPK	Debt Service	Debt payments	908,003

14. Interfund receivables and payables

There were no interfund receivables or payables as of June 30, 2018.

SUPPLEMENTARY INFORMATION

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

Year ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From local sources:				
Taxes:				
Property	\$ 3,055,000	\$ 3,100,000	\$ 3,181,740	\$ 81,740
Motor vehicle	441,185	525,000	549,596	24,596
Utilities	890,000	875,000	982,908	107,908
Earnings on investments	10,000	20,000	29,438	9,438
Other local	10,500	25,500	43,684	18,184
Intergovernmental – State	15,998,012	15,476,644	18,024,494	2,547,850
Intergovernmental – Federal	60,000	50,000	55,974	5,974
Total revenues	20,464,697	20,072,144	22,867,834	2,795,690
Expenditures				
Current:				
Instruction	12,665,692	12,468,375	15,067,212	(2,598,837)
Student support services	817,336	885,841	770,308	115,533
Instructional staff support services	684,149	693,895	634,731	59,164
District administration	1,295,389	1,250,429	961,130	289,299
School administration	1,059,432	1,050,548	1,116,711	(66,163)
Business support services	456,243	487,334	607,337	(120,003)
Plant operations and maintenance	2,773,011	2,709,271	1,915,663	793,608
Student transportation	2,057,364	2,086,039	1,896,110	189,929
Community services	130,759	130,759	-	130,759
Contingency	1,132,286	1,014,033	-	1,014,033
Debt service	186,117	186,117	186,117	-
Total expenditures	23,257,778	22,962,641	23,155,319	(192,678)
(Deficit) excess of revenues over (under) expenditures	(2,793,081)	(2,890,497)	(287,485)	2,603,012
Other financing sources (uses)				
Miscellaneous	-	-	74,499	74,499
Operating transfers in	41,341	38,757	43,593	4,836
Operating transfers out	(248,260)	(248,260)	(275,274)	(27,014)
Total other financing (uses) sources	(206,919)	(209,503)	(157,182)	52,321
Net change in fund balance	(3,000,000)	(3,100,000)	(444,667)	2,655,333
Fund balance as of July 1, 2017	3,255,948	3,255,948	3,255,948	-
Fund balance as of June 30, 2018	<u>\$ 255,948</u>	<u>\$ 155,948</u>	<u>\$ 2,811,281</u>	<u>\$ 2,655,333</u>

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS**

Year ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 902	\$ 902
Other local	30,800	49,800	59,123	9,323
Intergovernmental – State	1,032,220	1,048,246	990,867	(57,379)
Intergovernmental – Federal	<u>2,234,856</u>	<u>2,450,712</u>	<u>2,681,369</u>	<u>230,657</u>
Total revenues	3,297,876	3,548,758	3,732,261	183,503
Expenditures				
Current:				
Instruction	2,999,185	3,257,681	3,466,648	(208,967)
Student support services	14,130	15,293	19,026	(3,733)
Instructional staff support services	83,673	78,222	47,933	30,289
Student transportation	-	-	15,309	(15,309)
Community services	<u>222,350</u>	<u>219,024</u>	<u>231,820</u>	<u>(12,796)</u>
Total expenditures	<u>3,319,338</u>	<u>3,570,220</u>	<u>3,780,736</u>	<u>(210,516)</u>
(Deficit) excess of revenues (under) over expenditures	(21,462)	(21,462)	(48,475)	(27,013)
Other financing sources (uses)				
Operating transfers in	40,538	21,462	223,250	201,788
Operating transfers out	<u>(19,076)</u>	<u>-</u>	<u>(174,775)</u>	<u>(174,775)</u>
Total other financing sources (uses)	<u>21,462</u>	<u>21,462</u>	<u>48,475</u>	<u>27,013</u>
Net change in fund balance	-	-	-	-
Fund balance as of July 1, 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – COUNTY EMPLOYEES RETIREMENT SYSTEM

Years ended June 30, 2018, 2017, 2016, and 2015

District's proportion of the net pension liability	
2018 (2017 measurement period)	0.13%
2017 (2016 measurement period)	0.13%
2016 (2015 measurement period)	0.13%
2015 (2014 measurement period)	0.12%
District's proportionate share of the net pension liability	
2018 (2017 measurement period)	\$ 7,541,460
2017 (2016 measurement period)	6,476,613
2016 (2015 measurement period)	5,478,365
2015 (2014 measurement period)	4,047,000
District's covered-employee payroll	
2018 (2017 measurement period)	\$ 3,061,636
2017 (2016 measurement period)	3,260,158
2016 (2015 measurement period)	2,958,806
2015 (2014 measurement period)	2,854,426
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	
2018 (2017 measurement period)	246.32%
2017 (2016 measurement period)	198.66%
2016 (2015 measurement period)	185.15%
2015 (2014 measurement period)	141.78%
Plan fiduciary net position as a percentage of the total pension liability	
2018 (2017 measurement period)	53.32%
2017 (2016 measurement period)	55.50%
2016 (2015 measurement period)	59.97%
2015 (2014 measurement period)	66.80%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS –
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Years ended June 30, 2018, 2017, 2016, and 2015

Contractually required contribution	
2018 (2017 measurement period)	\$ 591,156
2017 (2016 measurement period)	556,183
2016 (2015 measurement period)	525,484
2015 (2014 measurement period)	539,201
Contributions in relation to the contractually required contribution	
2018 (2017 measurement period)	\$ 591,156
2017 (2016 measurement period)	556,183
2016 (2015 measurement period)	525,484
2015 (2014 measurement period)	539,201
Contribution deficiency (excess)	
2018 (2017 measurement period)	\$ -
2017 (2016 measurement period)	-
2016 (2015 measurement period)	-
2015 (2014 measurement period)	-
District's covered-employee payroll	
2018 (2017 measurement period)	\$ 3,164,647
2017 (2016 measurement period)	3,260,158
2016 (2015 measurement period)	2,958,806
2015 (2014 measurement period)	2,854,426
Contributions as a percentage of covered-employee payroll	
2018 (2017 measurement period)	18.68%
2017 (2016 measurement period)	17.06%
2016 (2015 measurement period)	17.76%
2015 (2014 measurement period)	18.89%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – COUNTY EMPLOYEES RETIREMENT SYSTEM

Year ended June 30, 2018

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2017 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2016), the demographic and economic assumptions that affect the measurement of the total pension liability have been updated. The discount rate used was lowered from 7.5% (2016 measurement date) to 6.25% (2017 measurement date).

Assets accumulated in trust – There are no assets accumulated in trust that meets the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for four fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY –TEACHERS' RETIREMENT SYSTEM**

Years ended June 30, 2018, 2017, 2016, and 2015

Commonwealth of Kentucky's proportion of the
net pension liability

2018 (2017 measurement period)	0.31%
2017 (2016 measurement period)	0.31%
2016 (2015 measurement period)	0.31%
2015 (2014 measurement period)	0.33%

Commonwealth of Kentucky's proportionate share
of the net pension liability

2018 (2017 measurement period)	\$ 87,716,584
2017 (2016 measurement period)	97,119,960
2016 (2015 measurement period)	76,497,627
2015 (2014 measurement period)	71,029,005

Plan fiduciary net position as a percentage of the
total pension liability

2018 (2017 measurement period)	39.83%
2017 (2016 measurement period)	35.22%
2016 (2015 measurement period)	42.49%
2015 (2014 measurement period)	45.59%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S CONTRIBUTIONS –TEACHERS'
RETIREMENT SYSTEM**

Years ended June 30, 2018, 2017, 2016, and 2015

Commonwealth of Kentucky statutorily required contribution	
2018 (2017 measurement period)	\$ 3,361,915
2017 (2016 measurement period)	1,598,024
2016 (2015 measurement period)	1,582,073
2015 (2014 measurement period)	1,673,820
Commonwealth of Kentucky contributions in relation to the statutorily required contribution	
2018 (2017 measurement period)	\$ 3,361,915
2017 (2016 measurement period)	1,598,024
2016 (2015 measurement period)	1,582,073
2015 (2014 measurement period)	1,673,820
Commonwealth of Kentucky annual contribution deficiency (excess)	
2018 (2017 measurement period)	\$ -
2017 (2016 measurement period)	-
2016 (2015 measurement period)	-
2015 (2014 measurement period)	-

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –TEACHERS' RETIREMENT SYSTEM

Year ended June 30, 2018

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2017 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2016) the demographic and economic assumptions that affect the measurement of total pension liability have been updated. The SEIR rate was increased from 4.20% (2016 measurement date) to 4.49% (2017 measurement date), the inflation rate was lowered from 3.5% (2016 measurement date) to 3.0% (2017 measurement date), the salary increases were lowered from 4.0 – 8.2% (2016 measurement date) to 3.5 – 7.3% (2017 measurement date), the municipal bond index rate was raised from 3.01% (2016 measurement date) to 3.56% (2017 measurement date), and the discount rate was raised from 4.2% (2016 measurement date) to 4.49% (2017 measurement date).

Assets accumulated in trust – There are no assets accumulated in trust that meet the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for four fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available. Since the Commonwealth of Kentucky makes all required pension contributions, the District has not included any District amounts in the required supplementary information.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OTHER
POSTEMPLOYMENT BENEFITS LIABILITY – COUNTY EMPLOYEES RETIREMENT SYSTEM
Year ended June 30, 2018**

District's proportion of the net OPEB liability 2018 (2017 measurement period)	0.13%
District's proportionate share of the net OPEB liability 2018 (2017 measurement period)	\$ 2,590,145
District's covered-employee payroll 2018 (2017 measurement period)	\$ 3,061,636
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll 2018 (2017 measurement period)	84.6%
Plan fiduciary net position as a percentage of the total OPEB liability 2018 (2017 measurement period)	52.4%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS –
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Year ended June 30, 2018

Contractually required contribution 2018 (2017 measurement period)	\$ 148,378
Contributions in relation to the contractually required contribution 2018 (2017 measurement period)	\$ 148,378
Contribution deficiency (excess) 2018 (2017 measurement period)	\$ -
District's covered-employee payroll 2018 (2017 measurement period)	\$ 3,061,636
Contributions as a percentage of covered-employee payroll 2018 (2017 measurement period)	4.85%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – COUNTY EMPLOYEES
RETIREMENT SYSTEM**

Year ended June 30, 2018

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2017 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2016), the demographic and economic assumptions that affect the measurement of the total pension liability have not updated.

Assets accumulated in trust – There are no assets accumulated in trust that meets the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OTHER
POSTEMPLOYMENT BENEFITS LIABILITY –TEACHERS' RETIREMENT SYSTEM
Year ended June 30, 2018**

District's proportion of the net OPEB liability 2018 (2017 measurement period)	0.31%
District's proportionate share of the net OPEB liability 2018 (2017 measurement period)	\$ 6,177,000
Commonwealth of Kentucky's proportionate share of the net OPEB liability 2018 (2017 measurement period)	<u>5,046,000</u>
Total 2018 (2017 measurement period)	<u>\$ 11,223,000</u>
District's covered payroll 2018 (2017 measurement period)	\$ 9,892,733
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll 2018 (2017 measurement period)	62.44%
Plan fiduciary net position as a percentage of the total pension liability 2018 (2017 measurement period)	81.38%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS –TEACHERS' RETIREMENT SYSTEM

Year ended June 30, 2018

Contractually required contribution 2018 (2017 measurement period)	\$ 296,782
Commonwealth of Kentucky's contractually required contribution 2018 (2017 measurement period)	\$ 242,428
Contributions in relation to the statutorily required contribution 2018 (2017 measurement period)	\$ 539,210
Contribution deficiency (excess) 2018 (2017 measurement period)	\$ -
District's covered employee payroll 2018 (2017 measurement period)	\$ 9,892,733
Contributions as a percentage of covered-employee payroll 2018 (2017 measurement period)	5.45%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –TEACHERS' RETIREMENT SYSTEM

Year ended June 30, 2018

Changes of benefit terms – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the Commonwealth will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Changes of assumptions – Since the prior measurement date (June 30, 2016) the demographic and economic assumptions that affect the measurement of total pension liability have not been updated.

Assets accumulated in trust – There are no assets accumulated in trust that meet the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS

Year ended June 30, 2018

<u>School</u>	<u>Cash</u> <u>July 1,</u> <u>2017</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2018</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2018</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2018</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2018</u>
Adair County Primary Center	\$ 18,621	\$ 74,423	\$ 69,040	\$ 24,004	\$ -	\$ -	\$ 24,004
Adair County Elementary School	29,631	21,563	28,401	22,793	-	-	22,793
Adair County Middle School	<u>54,688</u>	<u>112,914</u>	<u>112,750</u>	<u>54,852</u>	<u>-</u>	<u>-</u>	<u>54,852</u>
Totals	<u>\$ 102,940</u>	<u>\$ 208,900</u>	<u>\$ 210,191</u>	<u>\$ 101,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,649</u>

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS Year ended June 30, 2018

Activity Fund	Cash July 1, 2017	Receipts	Disbursements	Cash June 30, 2018	Accounts Receivable June 30, 2018	Accounts Payable June 30, 2018	Due to Student Groups June 30, 2018
Accel Academy	\$ 48	\$ 59	\$ 107	-	-	\$ -	-
ACHS Classroom	246	-	246	-	-	-	-
Art Camp	-	365	365	-	-	-	-
Art	1,167	90	757	500	-	-	500
Athletics	43,872	77,163	72,823	48,212	-	-	48,212
Beta Club	21	3,928	3,579	370	175	-	545
Boys basketball	-	1,310	1,310	-	-	-	-
Business co-op	581	-	19	562	-	-	562
Champions and SADD	334	95	150	279	-	-	279
Chemistry	179	-	-	179	-	-	179
Class 2018	3,308	18,976	22,283	1	-	-	1
Class 2019	601	17,221	13,170	4,652	-	-	4,652
Class 2020	1,450	1,576	240	2,786	-	-	2,786
Class 2021	-	1,834	866	968	-	-	968
Counselors office	289	800	275	814	-	-	814
Counselors events	-	24,593	21,240	3,353	-	-	3,353
Criminal records check	30	30	60	-	-	-	-
Drama	3,728	684	599	3,813	-	-	3,813
Earth Science	73	-	73	-	-	-	-
English activities	276	-	-	276	-	-	276

(continued)

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2018

Activity Fund	Cash July 1, 2017	Receipts	Disbursements	Cash June 30, 2018	Accounts Receivable June 30, 2018	Accounts Payable June 30, 2018	Due to Student Groups June 30, 2018
FCA-Fellowship							
Christian Athletes	\$ 1,042	\$ 2,160	\$ 2,483	\$ 719	-	-	\$ 719
FCCLA	534	123	201	456	-	-	456
FFA	2,537	49,413	44,951	6,999	226	-	7,225
FFA banquet	58	-	58	-	-	-	-
General	424	2,312	1,609	1,127	-	-	1,127
Girls and boys golf	-	1,624	-	1,624	-	-	1,624
Horticulture	11,958	13,581	13,794	11,745	-	-	11,745
Indian Academy	3,405	-	399	3,006	-	-	3,006
Lady Indians Basketball	2,128	6,444	3,731	4,841	-	114	4,727
Language	101	-	101	-	-	-	-
Library	359	198	-	557	-	-	557
Lost and damaged books	80	98	178	-	-	-	-
Math	600	-	270	330	-	-	330
NAHS – Fine Arts	504	168	437	235	-	-	235
National Honor Society	288	1,423	1,502	209	-	-	209
Office workers	345	-	345	-	-	-	-
Orchestra	1,382	4,893	4,950	1,325	2,530	-	3,855
Pep	728	1,015	923	820	-	-	820

(continued)

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED Year ended June 30, 2018

Activity Fund	Cash July 1, 2017	Receipts	Disbursements	Cash June 30, 2018	Accounts Receivable June 30, 2018	Accounts Payable June 30, 2018	Due to Student Groups June 30, 2018
Reliford's "A" Team	\$ 2,305	\$ 11,726	\$ 10,098	\$ 3,933	\$ -	\$ -	\$ 3,933
Stem Club	983	1,937	1,325	1,595	-	-	1,595
Softball	1,357	8,397	5,629	4,125	-	-	4,125
STLP	53	36	50	39	-	-	39
Student Coke	2,628	4,044	3,570	3,102	-	500	2,602
Student parking	298	1,396	1,269	425	-	-	425
Swim Team	-	7,301	5,668	1,633	-	-	1,633
Teachers' lounge							
Coke	233	1,366	939	660	-	-	660
Tennis	11	530	128	413	-	-	413
Testing (ACT Prep)	-	2,348	2,178	170	-	-	170
Track	619	7,423	7,323	719	-	-	719
Volleyball	2,819	11,121	8,942	4,998	-	-	4,998
Yearbook	5,933	20,652	14,823	11,762	-	200	11,562
Totals	99,915	310,453	276,036	134,332	2,931	814	136,449
Interfund transfers	-	6,577	6,577	-	-	-	-
Totals	\$ 99,915	\$ 303,876	\$ 269,459	\$ 134,332	\$ 2,931	\$ 814	\$ 136,449

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100102-17	\$ 1,369,398
		3100102-16	2,787
		3100002-17	51,342
		3100002-16	<u>115,581</u>
Subtotal			1,539,108
Migrant Education	84.011	3110002-17	48,456
		3110002-16	<u>66,469</u>
Subtotal			114,925
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	313C	22,924
Special Education	84.027 *1	3810002-17	491,689
		3810002-16	<u>193,385</u>
Subtotal			685,074
Career and Technical Education	84.048	3710002-17	31,282
		3710002-16	<u>1,623</u>
Subtotal			32,905
Special Education Preschool	84.173 *1	3800002-17	320
		3800002-16	24,278
		3800002-15	<u>17,202</u>
Subtotal			41,800
Rural Education	84.358	3140002-17	44,056
		3140002-16	<u>1,833</u>
Subtotal			45,889
English Language Acquisition	84.365	3300002-17	2,741
		3300002-16	<u>1,038</u>
Subtotal			3,779

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

Year ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
21 st Century Community Learning Centers	84.287	3400002-16 3400002-15	\$ 133,428 29,474
Subtotal			162,902
Race to the Top	84.413	436C	6,702
Title IV Student Support and Academic Enrichment	84.424	552D	22,015
Total U.S. Department of Education			2,678,023
<u>Department of Health and Human Services</u>			
Lake Cumberland Area Development for Block Grants:			
Block Grants for Community Mental Health Services	93.958	690D 690C	647 37
Subtotal			684
Total Department of Health and Human Services			684
<u>U.S. Department of Commerce</u>			
Pride Environmental Education	11.420	270D	2,744
Total U.S. Department of Commerce			2,744
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education:			
National School Lunch Program	10.555 *2	7750002-18 7750002-17	1,038,945 211,494
Subtotal			1,250,439
National School Breakfast Program	10.553 *2	7760005-18 7760005-17	313,355 47,291
Subtotal			360,646

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

Year ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Summer Food Service Program for Children	10.559 *2	7690024-17 7740023-17	\$ 510 <u>4,951</u>
Subtotal			5,461
Total U.S. Department of Agriculture			<u>1,616,546</u>
Total cash expenditures			4,297,997
Non-cash expenditures			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture: Food Donation	10.555 *2	Not provided	<u>115,942</u>
Total federal expenditures			<u>\$ 4,413,939</u>

*1 Special Education Cluster

Total \$ 726,874

*2 Child Nutrition Cluster

Total \$ 1,732,488

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2018

1. Basis of presentation

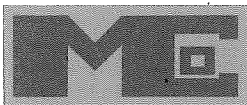
The accompanying schedule of expenditures of federal awards includes the federal award activity of the Adair County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Food donation

Nonmonetary assistance for food donation is reported in the schedule at the fair value of the commodities disbursed. The donations are received from the U.S. Department of Agriculture via the Kentucky Department of Agriculture (KDA). The KDA has not provided a pass-through grant number.

3. Indirect cost rate

The District does not apply the 10% de minimus indirect cost rate.



**M A T H E R
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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Submission Instructions*, the financial statements of the governmental activities, the business-type activities, and each major fund of the Adair County School District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Kentucky Public School Districts' Audit Contract and Requirements – State Compliance Requirements*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 9, 2018



**M A T H E R
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Adair County School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards application to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to*

Kentucky Public School Districts' Audit Contract and Requirements – Submission Instructions. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 9, 2018

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2018

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

Material weakness identified

_____ Yes ✓ No

Significant deficiencies identified that are not
considered to be material weaknesses

_____ Yes ✓ None reported

Noncompliance material to financial
statement notes

_____ Yes ✓ No

Federal Awards

Internal control over major programs:

Material weaknesses identified

_____ Yes ✓ No

Significant deficiencies identified that are not
considered to be material weaknesses

_____ Yes ✓ None reported

Type of auditor's report issued on compliance for
major programs

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with Section 200.516
of the Uniform Guidance

_____ Yes ✓ No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.010

Title I

Dollar threshold used to distinguish
between Type A and Type B program

\$ 750,000

Auditee qualified as low risk

✓ Yes _____ No

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
Year ended June 30, 2018

Section II – Financial Statement Findings

No matters to report.

Section III – Federal Award Findings

No matters to report.

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2018

There were no prior year audit findings.



**M A T H E R
& C O M P A N Y**

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Members of the Board of Education
Adair County School District
Columbia, Kentucky

In planning and performing our audit of the financial statements of the Adair County School District (District) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Submission Instructions* we considered the District's internal control over financial reporting and compliance to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting. In addition, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

However, during our audit we followed up on instances of noncompliance we noted during our prior audit that we do not consider to be material weaknesses or significant deficiencies, but are opportunities for strengthening internal control. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 9, 2018 on the District's financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 9, 2018

ADAIR COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2018**

CONTENTS

Elementary, Middle, and High School Activity Funds	81
Other Issues Relating to Internal Controls and General Accounting Procedures	82

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

Follow-up on Prior Year Findings

ADAIR COUNTY MIDDLE SCHOOL

Prior year comment: We noted an instance where an activity fund balance was negative at the end of the year.

Current year follow-up: No such instance was noted in the current year.

Current Year Findings

There are no current year findings.

OTHER ISSUES RELATING TO INTERNAL CONTROL AND GENERAL ACCOUNTING PROCEDURES

Follow-up on Prior Year Finding

There were no prior year findings.

Current Year Findings

There are no current year findings.